

March 14, 1997 RECEIVED MAR 1 4 1997

Mr. William F. Caton Secretary Federal Communications Commission 1919 M Street, N.W. Room 222 Washington, D.C. 20554

> Re: Ex Parte Presentation in CC Docket No. 96-45

Dear Mr. Caton:

On March 13, 1997, Heather Gold, Richard J. Metzger and I, representing ALTS, and Paul Cain, representing TCG, met with Jim Casserly of Commissioner Ness' office to discuss two aspects of universal service. Subsequently, we met with Daniel Gonzales of Commissioner Chong's office, Tom Boasberg of Chairman Hundt's office and Katherine Schroder and Richard Lerner of the Common Carrier Bureau. Specifically, we advocated that the fairest method of collecting universal service funds is to base contributions on both inter- and intrastate revenues and that competitive neutrality requires that contributions be via an enduser surcharge. In addition, ALTS expressed its general concern that there has been no showing that a large universal service fund is necessary to satisfy the goals of the Telecommunications Act. The attached four page synopsis of the ALTS position was handed out at the meetings.

An original and one copy of this ex parte notice are being filed. Please include this notice in the public record in this proceeding.

Respectfully submitted,

Emily M. Williams

cc: Jim Casserly Tom Boasberg Dan Gonzales Katherine Schroder Richard Lerner

Attachment

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UNIVERSAL SERVICE: KEEP IT FAIR, TARGETED, AND SMALL

- A Single Fund Financed by Both Interstate and Intrastate Revenues Is Necessary to Satisfy the Universal Service Policies of the Federal Act -- The proposed Federal universal fund currently includes several expensive intrastate policy concerns (e.g., increased low-income household support, increased support for rural and small ILECS). This demands funding from all jurisdictional revenues to protect competitive neutrality (see the attached charts showing the unfair effect on new entrants of using only interstate revenues).
 - ●● Because CLECs enter interstate access markets first, their interstate revenues are proportionately higher than the ILECs, yet ILECs will receive <u>all</u> the new universal service fund revenues at its start.
 - ●● Any federal fund supported solely by interstate revenues should include only existing interstate mechanisms for rural and small ILECs (current LTS, the high cost fund, and DEM weighting), along with current Federal low-income support, each at existing or reduced levels.¹
- <u>Fairness in Benchmarking</u> -- The Federal universal service fund cannot be fairly sized unless <u>all</u> access line revenues are included in the benchmark analysis.
- Competitive Neutrality Requires that Carrier Contributions Be Collected Via End User Surcharges -- All contributing carriers should be required to include universal service amounts as surcharges on end user bills.

¹ <u>See</u> Commissioner Chong's speech of 2/26/97: "If the FCC funds the schools, libraries and health care piece on interstate and intrastate revenues, but funds the remainder of the program on interstate revenues alone — the FCC will have little option but to contribute less federal dollars to support your state's low income consumers, as well as those consumers in rural and high cost areas."

COMPARISON OF UNIVERSAL SERVICE COST RECOVERY SCENARIOS

Assumptions:

- Total regulated revenues = \$199B at yearend 1995.
- Interstate revenues are 43% of total revenues.
- Assume CLEC regulated revenues are split 50%/50% jurisdictionally (this probably overstates current intrastate revenues), and ILECs are split 75%/25%.

Scenario I -- Big Federal Fund, Smaller State Funds

- Possible size of Federal universal service fund ≈ \$15B
- Possible size of combined state universal service funds ≈ \$5B

	Allocated by Total Revenues	Allocated by Jurisdictional Revenues
Federal Fund	\$15B/\$199B = <u>7.5%</u> of total revenues for all carriers	\$15B/\$86B = 17.4% of all interstate revenues CLECs pay <u>8.7%</u> of their total regulated revenues ILECs pay <u>4.4%</u> of their total revenues
State Funds	\$5B/\$199B = 2.5% of total revenues for all carriers	\$5B/\$113B = 4.4% of total intrastate regulated revenues CLECs pay 2.2% of their total revenues ILECs pay 3.3% of their total revenues
TOTAL PAYMENTS AS A % OF REVENUES	CLECs pay 10% ILECs pay 10%	CLECs pay 10.9% ILECs pay 7.7%

Scenario II -- Smaller Federal Fund, Big State Funds

- Possible size of Federal universal service fund ≈ \$5B
- Possible size of combined state universal service funds ≈ \$15B

	Allocated by <u>Total Revenues</u>	Allocated by Jurisdictional Revenues
Federal Fund	\$5B/\$199B = <u>2.5%</u> of total revenues for all carriers	\$5B/\$86B = 5.8% of all interstate revenues
		CLECs pay <u>2.9%</u> of their <u>total</u> revenues
		ILECs pay <u>1.5%</u> of their total revenues
		\$15B/\$113B = 13.3% of total intrastate revenues
State Funds	\$5B/\$199B = 7.5% of total revenues for all carriers	CLECs pay <u>6.6%</u> of their total revenues
		ILECs pay <u>10.0%</u> of their total revenues
TOTAL PAYMENTS AS A % OF REVENUES	CLECs pay 10.0% ILECs pay 10.0%	CLECs pay 9.5% ILECs pay 11.5%

Scenario III - Properly Sized Federal and State Funds

- Possible size of Federal universal service fund ≈ \$4B
- Possible size of combined state universal service funds ≈ \$2B



	Allocated by Total Revenues	Allocated by Jurisdictional Revenues
Federal Fund	\$4B/\$199B = <u>2.0%</u> of total revenues for all carriers	\$4B/\$86B = 4.7% of all interstate revenues
		CLECs pay <u>2,3%</u> of their <u>total</u> revenues
		ILECs pay <u>1.2%</u> of their total revenues
State Funds		\$2B/\$113B = 1.8% of total intrastate revenues
	\$2B/\$199B = 1.0% of total revenues for all carriers	CLECs pay <u>.9%</u> of their total revenues
		ILECs pay <u>1.3%</u> of their total revenues
TOTAL PAYMENTS AS A % OF REVENUES	CLECs pay 3.0% ILECs pay 3.0%	CLECs pay 3.2% ILECs pay 2.5%